

# Auditing Procedures Report

Instructions and MuniCodes

\*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.07)

Unit Name* VILLAGE OF SHERWOOD	County* BRANCH	Type* VILLAGE	MuniCode* 12-3-020
Opinion Date-Use Calendar* Sep 29, 2008	Audit Submitted-Use Calendar* Sep 30, 2008	Fiscal Year End Month* 03	Fiscal Year* 2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

- ☒ ☐ 1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
- ☒ ☐ 2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
- ☒ ☐ 3. Were the local unit's actual expenditures within the amounts authorized in the budget?
- ☒ ☐ 4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
- ☒ ☐ 5. Did the local unit adopt a budget for all required funds?
- ☒ ☐ 6. Was a public hearing on the budget held in accordance with State statute?
- ☒ ☐ 7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
- ☒ ☐ 8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
- ☒ ☐ 9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
- ☒ ☐ 10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
- ☒ ☐ 11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
- ☒ ☐ 12. Is the local unit free of repeated reported deficiencies from previous years?
- ☒ ☐ 13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? NA
- ☒ ☐ 15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
- ☒ ☐ 16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
- ☒ ☐ 17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
- ☐ ☐ 18. Are there reported deficiencies? ☐ 19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="checkbox"/> \$ 66,613.00
General Fund Expenditure:	<input type="checkbox"/> \$ 62,755.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	<input type="checkbox"/> \$ 53,460.00
Governmental Activities Long-Term Debt (see instructions):	<input type="checkbox"/>

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)* GREG	Last Name* BAILEY	Ten Digit License Number* 1101022915		
CPA Street Address* 479 E CHICAGO ST BOX 215	City* JONESVILLE	State* MI	Zip Code* 49250	Telephone* +1 (517) 849-2410
CPA Firm Name* BAILEY, HODSHIRE & COMPANY	Unit's Street Address* 118 SHERMAN ST	Unit's City* SHERWOOD	Unit's Zip* 49089	

VILLAGE OF SHERWOOD

AUDIT REPORT

MARCH 31, 2008

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# Bailey, Hodshire & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

To the Village Council  
Village of Sherwood  
Sherwood, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Village of Sherwood, as of and for the year ended March 31, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Sherwood's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Village of Sherwood, as of March 31, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 5 and pages 17 through 20, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Bailey, Hodshire & Company, P.C.*  
Jonesville, Michigan

September 29, 2008

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## VILLAGE OF SHERWOOD MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Village of Sherwood's annual financial report presents the Management's Discussion and Analysis (MD&A) of the Village's financial activities during the fiscal year ended March 31, 2008. The analysis focuses on the Village's financial performance as a whole. It is intended to be read as part of the Village's financial statements, which immediately follow this section.

### FINANCIAL HIGHLIGHTS

- The assets of the Village of Sherwood exceeded its liabilities at March 31, 2008, by \$452,890. Of this amount, \$144,762 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors. The net assets of the Village increased by \$6,536 during the year.
- In October of 2007, the Village Council voted to replace 13 trees on Main street, as their root systems were raising up the sidewalk leaving it unsafe for people walking by. In fiscal year 2007-08, \$6,265 was paid out for this project. The Village Council budgeted \$3,000 for the remaining work to be completed in 2008. Also, 6 trees were sold to a Village Resident at a cost of \$100 per tree. Payment will be received in the Spring when it is determined that all of the trees are alive.

### USING THIS REPORT

The annual report consists of a series of financial statements including other requirements as follows:

1. Management's Discussion & Analysis introduces the basic financial statements and provides an analytical overview of the Village's financial activities.
2. Government-wide financial statements consist of a *statement of net assets* and a *statement of activities*. These provide information about the activities of the Village as a whole and represent an overall view of the Village's finances.
3. Fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the most significant funds.
4. Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
5. Required supplementary information, other than the MD&A, provides information about the required budgetary comparison information.

### REPORTING THE VILLAGE AS A WHOLE

The government-wide financial statements report information about the Village as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Village's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

One of the most important questions asked about the Village's finances is: Is the Village as a whole better off or worse off as a result of the year's activities? The statement of net assets and the statement of activities report information on the Village as a whole and its activities in a way that helps answer this question. These statements include *all* assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. The two statements report the Village's *net assets* - - the difference between assets and liabilities - - as one way to measure the Village's financial health, or financial position. Over time, increases or decreases in the Village's net assets are one indicator of whether its financial

## VILLAGE OF SHERWOOD MANAGEMENT'S DISCUSSION AND ANALYSIS

health is improving or deteriorating. Additional factors such as changes in the Village's property tax base and the condition of the Village's infrastructure are also important in making this decision.

### REPORTING THE VILLAGE'S MOST SIGNIFICANT FUNDS

The fund financial statements provide detailed information about the Village's most significant funds, not the Village as a whole. Some funds are required to be established by state law and by bond covenants. The Village may establish other funds to account for and manage revenue and expenditures that are related to specific projects (i.e. capital improvements), grants or other purposes.

*Governmental Funds* - All of the Village's basic services are included in governmental funds. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. Governmental funds include the General Fund, Special Revenue Funds (Major Street and Local Street) and the Capital Projects Fund. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The government fund statements provide a detailed, short-term view of the Village's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The following table shows the Village's net assets as of March 31, 2007 and 2008:

ASSETS	3-31-07	3-31-08
Current assets	\$ 143,737	\$ 146,529
Capital assets, net of accumulated depreciation	<u>309,037</u>	<u>308,128</u>
Total assets	\$ <u>452,774</u>	\$ <u>454,657</u>
LIABILITIES		
Current liabilities	\$ 6,420	\$ 1,767
Long-term liabilities	<u>0</u>	<u>0</u>
Total liabilities	\$ <u>6,420</u>	\$ <u>1,767</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 309,037	\$ 308,128
Restricted	0	0
Unrestricted	<u>137,317</u>	<u>144,762</u>
Total net assets	\$ <u>446,354</u>	\$ <u>452,890</u>

## VILLAGE OF SHERWOOD MANAGEMENT'S DISCUSSION AND ANALYSIS

A portion of the Village's net assets is invested in capital assets (e.g. land, infrastructure, buildings, and equipment), less related debt (if any). Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Total unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints, is \$144,762.

The following table provides the Village's change in net assets for the years ended March 31, 2007 and 2008:

	<u>2006-07</u>	<u>2007-08</u>
Program Revenue		
Charges for services	\$ 1,030	\$ 640
Operating grants and contributions	0	0
Capital grants and contributions	156,691	0
General revenue		
Property taxes	18,522	19,619
State Shared Revenue	69,144	68,405
Other	<u>4,835</u>	<u>4,552</u>
Total revenue	<u>\$ 250,222</u>	<u>\$ 93,216</u>
Expenses		
Legislative	\$ 20,941	\$ 17,919
General Government	11,974	12,525
Community & Economic Development	3,668	3,710
Public Works	33,081	47,629
Parks & Recreation	<u>5,280</u>	<u>4,897</u>
Total expenses	<u>\$ 74,944</u>	<u>\$ 86,680</u>
INCREASE(DECREASE) IN NET ASSETS	<u>\$ 175,278</u>	<u>\$ 6,536</u>

### INDIVIDUAL GOVERNMENTAL FUND ANALYSIS

As the Village of Sherwood completed its year, its governmental funds reported a total fund balance of \$144,762, which is more than the \$137,317 fund balance at March 31, 2007.

- The General Fund, the operating fund for the Village, ended the year with a \$53,460 fund balance, compared to the prior year ending fund balance of \$49,602.
- Major Street Fund Balance increased by \$4,222.
- Local Street Fund Balance decreased by \$1,127.
- Capital Projects Fund Balance increased by \$492.

### BUDGETARY HIGHLIGHTS

The Budgets were amended in April of 2008 by a vote of the Village Council. These amendments were as follows: Major Street Revenue Sharing decrease \$1,000; Local Street Revenue Sharing decrease \$300; Major Street Winter Maintenance increase \$2,900; Major Street Construction increase \$6,900; Local Street Routine Maintenance increase \$700 and Local Street Winter Maintenance increase \$2,500.



## **VILLAGE OF SHERWOOD MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

The Village's investment in capital assets, including land, buildings and improvements, equipment, roadways and other infrastructure represents the value of the resources utilized to provide services to citizens. Capital assets totaled \$308,128 (net of accumulated depreciation) at March 31, 2008. See the notes to the financial statements for more information about the Village's capital assets. The major capital outlays for the year included \$9,375 for new sidewalks, and \$6,865 for new trees along Main Street.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Village Council is working very hard to be prudent with their money as some Revenue Sharing from the State may be cut back in the future. There are no big expenditures planned for the next year. The Village Council did budget \$5,000 for new sidewalks, but in July of 2008, the Council voted not to install any new sidewalks in 2008 due to the budget being very tight.

### **CONTACTING THE VILLAGE'S MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, customers, investors, creditors, and other interested parties with a general overview of the Village's finances and operating activities. If you have any questions or require additional information, please contact the Village of Sherwood, P.O. Box 182, Sherwood, Michigan 49089.

## BASIC FINANCIAL STATEMENTS

VILLAGE OF SHERWOOD  
STATEMENT OF NET ASSETS  
MARCH 31, 2008

	Governmental <u>Activities</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 130,048
Due from other governmental units	10,522
Prepaid expenses	<u>5,959</u>
Total current assets	<u>\$ 146,529</u>
Noncurrent assets	
Capital assets	
Land	\$ 11,300
Buildings and improvements	65,222
Equipment	29,956
Vehicles	8,400
Infrastructure	281,788
Less: accumulated depreciation	<u>(95,403)</u>
Net capital assets	\$ 301,263
Construction in progress	<u>6,865</u>
Total noncurrent assets	<u>\$ 308,128</u>
Total assets	<u><u>\$ 454,657</u></u>
<b>LIABILITIES</b>	
Current liabilities	
Accrued payroll	\$ 515
Payroll taxes payable	<u>1,252</u>
Total liabilities	<u>\$ 1,767</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	\$ 308,128
Unrestricted	<u>144,762</u>
Total net assets	<u>\$ 452,890</u>
Total liabilities and net assets	<u><u>\$ 454,657</u></u>

See accompanying notes to the basic financial statements.

VILLAGE OF SHERWOOD  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2008

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government:					
Governmental activities:					
Legislative	\$ 17,919	\$ 0	\$ 0	\$ 0	\$ (17,919)
General Government	12,525	0	0	0	(12,525)
Community & Economic Development	3,710	75	0	0	(3,635)
Public Works	47,629	0	0	0	(47,629)
Parks & Recreation	<u>4,897</u>	<u>565</u>	<u>0</u>	<u>0</u>	<u>(4,332)</u>
Total governmental activities	<u>\$ 86,680</u>	<u>\$ 640</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (86,040)</u>
General revenue:					
Property taxes levied for general purposes					\$ 19,619
State shared revenue					68,405
Unrestricted investment income					1,597
Miscellaneous					<u>2,955</u>
Total general revenue					<u>\$ 92,576</u>
Change in net assets					\$ 6,536
Net assets - beginning					<u>446,354</u>
Net assets - ending					<u>\$ 452,890</u>

See accompanying notes to the basic financial statements.

VILLAGE OF SHERWOOD  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
MARCH 31, 2008

ASSETS	General	Major Streets	Local Streets	Capital Projects	Total Governmental Funds
Cash & cash equivalents	\$ 45,129	\$ 49,129	\$ 8,951	\$ 26,839	\$ 130,048
Due from other governmental units	4,139	5,164	1,219	0	10,522
Prepaid expenditures	<u>5,959</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,959</u>
Total assets	<u>\$ 55,227</u>	<u>\$ 54,293</u>	<u>\$ 10,170</u>	<u>\$ 26,839</u>	<u>\$ 146,529</u>
LIABILITIES					
Accrued payroll	\$ 515	\$ 0	\$ 0	\$ 0	\$ 515
Payroll taxes payable	<u>1,252</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,252</u>
Total liabilities	<u>\$ 1,767</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,767</u>
FUND BALANCES					
Unreserved	<u>\$ 53,460</u>	<u>\$ 54,293</u>	<u>\$ 10,170</u>	<u>\$ 26,839</u>	<u>\$ 144,762</u>
Total liabilities and fund balances	<u>\$ 55,227</u>	<u>\$ 54,293</u>	<u>\$ 10,170</u>	<u>\$ 26,839</u>	<u>\$ 146,529</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF SHERWOOD  
Reconciliation of Fund Balances on the Balance Sheet  
for Governmental Funds to Net Assets of  
Governmental Activities on the Statement of Net Assets  
March 31, 2008

Fund Balances - total governmental funds	\$ 144,762
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial  
resources and therefore are not reported in the funds.

Add: capital assets	403,531
Deduct: accumulated depreciation	<u>(95,403)</u>

Net assets of governmental activities	<u>\$ 452,890</u>
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The accompanying notes are an integral part of this statement.

VILLAGE OF SHERWOOD  
STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED MARCH 31, 2008

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUE					
Property taxes	\$ 19,619	\$ 0	\$ 0	\$ 0	\$ 19,619
State shared revenue	32,212	29,283	6,910	0	68,405
Charges for services	750	0	0	0	750
Interest income	118	945	42	492	1,597
Licenses, permits, and fees	75	0	0	0	75
Rent	12,884	0	0	0	12,884
Miscellaneous	<u>955</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>955</u>
Total revenue	<u>\$ 66,613</u>	<u>\$ 30,228</u>	<u>\$ 6,952</u>	<u>\$ 492</u>	<u>\$ 104,285</u>
EXPENDITURES					
Legislative	\$ 17,919	\$ 0	\$ 0	\$ 0	\$ 17,919
General Government	10,698	0	0	0	10,698
Community & Economic Development	3,710	0	0	0	3,710
Public Works	26,022	26,006	8,079	0	60,107
Parks & Recreation	<u>4,406</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,406</u>
Total expenditures	<u>\$ 62,755</u>	<u>\$ 26,006</u>	<u>\$ 8,079</u>	<u>\$ 0</u>	<u>\$ 96,840</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>\$ 3,858</u>	<u>\$ 4,222</u>	<u>\$ (1,127)</u>	<u>\$ 492</u>	<u>\$ 7,445</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Operating transfers out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total other financing sources (uses)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
NET CHANGE IN FUND BALANCES	\$ 3,858	\$ 4,222	\$ (1,127)	\$ 492	\$ 7,445
FUND BALANCES - Beginning	<u>49,602</u>	<u>50,071</u>	<u>11,297</u>	<u>26,347</u>	<u>137,317</u>
FUND BALANCES - Ending	<u>\$ 53,460</u>	<u>\$ 54,293</u>	<u>\$ 10,170</u>	<u>\$ 26,839</u>	<u>\$ 144,762</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF SHERWOOD  
Reconciliation of Statement of Revenue, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Year Ended March 31, 2008

Net changes in fund balances - total governmental funds	\$ 7,445
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	16,240
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Deduct: depreciation expense	<u>(17,149)</u>
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Change in net assets of governmental activities	<u>\$ 6,536</u>
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The accompanying notes are an integral part of this statement.



**VILLAGE OF SHERWOOD**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Village of Sherwood comprises a population of approximately 324 residents in Branch County, Michigan. It operates under the Council-President form of government and provides the following services as authorized by its charter: highways and streets, sanitation, parks and recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the Village of Sherwood conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The following is a summary of significant accounting policies used by the Village of Sherwood:

**Government-Wide and Fund Financial Statements**

Government-Wide Financial Statements - The statement of net assets and the statement of activities display financial information about the Village as a whole, excluding fiduciary activities. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Village's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the function and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, State Revenue Sharing, and other items not properly included among program revenues are reported as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Village.

Fund Financial Statements - Fund financial statements report detailed information about the Village. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds (if any) are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

**Measurement Focus and Basis of Accounting**

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting including the reclassification or elimination of internal activity (between or within funds). Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is to be collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

VILLAGE OF SHERWOOD  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Under the modified accrual basis, property taxes, State revenue sharing, interest, and grants are considered to be both measurable and available at fiscal year-end. Grants received before the eligibility requirements are met are recorded as deferred revenue.

**Financial Statement Presentation**

The Village uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Village functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

The Village reports the following major governmental funds:

General Fund - used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the laws of the State of Michigan.

Special Revenue Funds - used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust, or major capital projects) that are legally restricted to expenditures for specified purposes (i.e. Major Streets and Local Streets).

Capital Projects Fund - used to account for the acquisition of fixed assets or construction of major capital projects.

**Assets, Liabilities, and Net Assets**

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less.

Capital Assets - General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Village maintains a capitalization threshold of \$1,500. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings & improvements	40 years
Furniture & equipment	5 - 15 years
Infrastructure	20 years

Interfund Balances - On fund financial statements, receivables and payables resulting from short-term interfund loans are reported as "due to/from other funds." These amounts are eliminated on the government-wide statement of net assets.

VILLAGE OF SHERWOOD  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Fund Balance - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Interfund Activity - Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Budgetary Information - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The legal level of budgetary control has been established by the Village Council at the line-item level. Any budgetary modifications may only be made by resolution of the Village Council. All annual appropriations lapse at fiscal year end.

The Village follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements:

- 1) Prior to March 31, the Village Council proposes budgets for the fiscal year commencing on April 1.
- 2) A public hearing is conducted during February to obtain taxpayer comments.
- 3) Prior to March 31, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the Village, transfer of appropriations may be made by the authorization of the Village Council.
- 5) The Village Council is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended), authorizes the Village to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Village's investment policy makes no further limitation on investments. As of March 31, 2008, the Village's deposits are in accordance with statutory authority.

VILLAGE OF SHERWOOD  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**NOTE 3 - DEPOSITS AND INVESTMENTS (continued)**

The Village's deposits and investments are subject to several types of risk, which are examined in more detail as follows:

*Credit Risk* - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Village minimizes credit risk by limiting investments to the types of securities allowed by State law.

*Concentration of Credit Risk* - The Village places no limit on the amount the Village may invest in any one issuer.

*Custodial Credit Risk* - Custodial credit risk for deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Village does not have a formal policy for custodial credit risk. At March 31, 2008, the carrying amount of the Village's bank deposits was \$130,048 and the bank's balance was \$131,655. The entire bank balance was covered by federal depository insurance.

*Interest Rate Risk* - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Village has no policy that specifically addresses interest rate risk.

*Foreign Currency Risk* - The Village is not authorized to invest in investments which have this type of risk.

**Investments**

There were no investments held during the year.

**NOTE 4 - RECEIVABLES**

Receivables at March 31, 2008, consists of State revenue sharing, which is considered collectible in full.

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended March 31, 2008, was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 11,300	\$ 0	\$ 0	\$ 11,300
Construction in progress	0	6,865	0	6,865
Total	<u>\$ 11,300</u>	<u>\$ 6,865</u>	<u>\$ 0</u>	<u>\$ 18,165</u>
Capital assets being depreciated				
Buildings & Improvements	\$ 65,222	\$ 0	\$ 0	\$ 65,222
Equipment	29,956	0	0	29,956
Vehicles	8,400	0	0	8,400
Infrastructure	272,413	9,375	0	281,788
Less accumulated depreciation	(78,254)	(17,149)	0	(95,403)
Total capital assets being depreciated, net	<u>\$ 297,737</u>	<u>\$ (7,774)</u>	<u>\$ 0</u>	<u>\$ 289,963</u>
Total capital assets, net	<u>\$ 309,037</u>	<u>\$ (909)</u>	<u>\$ 0</u>	<u>\$ 308,128</u>

VILLAGE OF SHERWOOD  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**NOTE 5 - CAPITAL ASSETS (continued)**

Depreciation expense was charged to functions/programs of the Village as follows:

General government	\$ 1,827
Public works	14,831
Parks	<u>491</u>
Total	<u>\$ 17,149</u>

**NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

There were no amounts due between funds at March 31, 2008.

**NOTE 7 - PROPERTY TAXES**

Real estate and personal property taxes are recorded as revenue in amounts equal to the total taxes levied. The total levy for 2007 was 7.0 mills on a total state taxable value of approximately \$2,775,000. Village properties are assessed as of July 31 (the lien date) - taxes levied July 1 of the succeeding year and are due without interest to September 15. After the final collection date, unpaid real property taxes are added to the county delinquent tax rolls. Personal property taxes unpaid continue to be collected by the Village Treasurer.

**NOTE 8 - RISK MANAGEMENT**

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Village has purchased commercial insurance for each of these areas of risk. There have been no significant reductions in insurance coverages, and settled claims have not exceeded the amount of insurance coverage for the current or the three prior years.

## REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF SHERWOOD  
SCHEDULE OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED MARCH 31, 2008

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Property taxes	\$ 18,800	\$ 18,800	\$ 19,425	\$ 625
Tax administration fee	188	188	194	6
Licenses and permits	150	150	75	(75)
State Shared Revenue	32,500	32,500	32,212	(288)
Charges for services	350	350	750	400
Interest	160	160	118	(42)
Village Hall rent	2,550	2,550	2,000	(550)
Park rent	800	800	565	(235)
Equipment rent	9,950	9,950	10,319	369
Refunds and reimbursements	200	200	696	496
Miscellaneous	<u>0</u>	<u>0</u>	<u>259</u>	<u>259</u>
Total revenue	<u>\$ 65,648</u>	<u>\$ 65,648</u>	<u>\$ 66,613</u>	<u>\$ 965</u>
EXPENDITURES				
Village Council	\$ 18,210	\$ 18,210	\$ 17,919	\$ (291)
President	1,808	1,808	1,808	0
Clerk	6,980	6,980	6,899	(81)
Treasurer	1,994	1,994	1,991	(3)
Planning & Zoning	4,015	4,015	3,710	(305)
Public Works	11,283	20,658	18,007	(2,651)
Street Lighting	5,100	5,100	5,049	(51)
Sanitation	3,700	3,700	2,966	(734)
Parks and Recreation	<u>7,368</u>	<u>7,368</u>	<u>4,406</u>	<u>(2,962)</u>
Total expenditures	<u>\$ 60,458</u>	<u>\$ 69,833</u>	<u>\$ 62,755</u>	<u>\$ (7,078)</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>\$ 5,190</u>	<u>\$ (4,185)</u>	<u>\$ 3,858</u>	<u>\$ 8,043</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 0	\$ 0	\$ 0	\$ 0
Operating transfers out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total other financing sources (uses)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
NET CHANGE IN FUND BALANCES	<u>\$ 5,190</u>	<u>\$ (4,185)</u>	<u>\$ 3,858</u>	<u>\$ 8,043</u>
FUND BALANCES - Beginning	<u>49,602</u>	<u>49,602</u>	<u>49,602</u>	<u>0</u>
FUND BALANCES - Ending	<u>\$ 54,792</u>	<u>\$ 45,417</u>	<u>\$ 53,460</u>	<u>\$ 8,043</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF SHERWOOD  
SCHEDULE OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
MAJOR STREETS FUND  
FOR THE YEAR ENDED MARCH 31, 2008

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
State shared revenue	\$ 29,500	\$ 28,500	\$ 29,283	\$ 783
Interest	<u>750</u>	<u>750</u>	<u>945</u>	<u>195</u>
Total revenue	<u>\$ 30,250</u>	<u>\$ 29,250</u>	<u>\$ 30,228</u>	<u>\$ 978</u>
EXPENDITURES				
Street construction	\$ 0	\$ 6,900	\$ 6,865	\$ (35)
Routine maintenance	12,606	12,606	12,020	(586)
Winter maintenance	2,356	5,256	5,209	(47)
Administration	<u>1,917</u>	<u>1,917</u>	<u>1,912</u>	<u>(5)</u>
Total expenditures	<u>\$ 16,879</u>	<u>\$ 26,679</u>	<u>\$ 26,006</u>	<u>\$ (673)</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>\$ 13,371</u>	<u>\$ 2,571</u>	<u>\$ 4,222</u>	<u>\$ 1,651</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 0	\$ 0	\$ 0	\$ 0
Operating transfers out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total other financing sources (uses)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
NET CHANGE IN FUND BALANCES	<u>\$ 13,371</u>	<u>\$ 2,571</u>	<u>\$ 4,222</u>	<u>\$ 1,651</u>
FUND BALANCES - Beginning	<u>50,071</u>	<u>50,071</u>	<u>50,071</u>	<u>0</u>
FUND BALANCES - Ending	<u>\$ 63,442</u>	<u>\$ 52,642</u>	<u>\$ 54,293</u>	<u>\$ 1,651</u>

The accompanying notes are an integral part of this statement.



VILLAGE OF SHERWOOD  
SCHEDULE OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
LOCAL STREETS FUND  
FOR THE YEAR ENDED MARCH 31, 2008

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
State shared revenue	\$ 7,000	\$ 6,700	\$ 6,910	\$ 210
Interest	<u>40</u>	<u>40</u>	<u>42</u>	<u>2</u>
Total revenue	<u>\$ 7,040</u>	<u>\$ 6,740</u>	<u>\$ 6,952</u>	<u>\$ 212</u>
EXPENDITURES				
Street construction	\$ 0	\$ 0	\$ 0	\$ 0
Routine maintenance	3,451	4,151	4,142	(9)
Winter maintenance	793	3,293	3,207	(86)
Administration	<u>734</u>	<u>734</u>	<u>730</u>	<u>(4)</u>
Total expenditures	<u>\$ 4,978</u>	<u>\$ 8,178</u>	<u>\$ 8,079</u>	<u>\$ (99)</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>\$ 2,062</u>	<u>\$ (1,438)</u>	<u>\$ (1,127)</u>	<u>\$ 311</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 0	\$ 0	\$ 0	\$ 0
Operating transfers out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total other financing sources (uses)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
NET CHANGE IN FUND BALANCES	\$ 2,062	\$ (1,438)	\$ (1,127)	\$ 311
FUND BALANCES - Beginning	<u>11,297</u>	<u>11,297</u>	<u>11,297</u>	<u>0</u>
FUND BALANCES - Ending	<u>\$ 13,359</u>	<u>\$ 9,859</u>	<u>\$ 10,170</u>	<u>\$ 311</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF SHERWOOD  
SCHEDULE OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
CAPITAL PROJECTS FUND  
FOR THE YEAR ENDED MARCH 31, 2008

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Interest	\$ 300	\$ 300	\$ 492	\$ 192
Miscellaneous	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total revenue	<u>\$ 300</u>	<u>\$ 300</u>	<u>\$ 492</u>	<u>\$ 192</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 0	\$ 0	\$ 0	\$ 0
Operating transfers out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total other financing sources (uses)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
NET CHANGE IN FUND BALANCES	\$ 300	\$ 300	\$ 492	\$ 192
FUND BALANCES - Beginning	<u>26,347</u>	<u>26,347</u>	<u>26,347</u>	<u>0</u>
FUND BALANCES - Ending	<u>\$ 26,647</u>	<u>\$ 26,647</u>	<u>\$ 26,839</u>	<u>\$ 192</u>

The accompanying notes are an integral part of this statement.

Bailey, Hodshire  
& Company, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

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JONESVILLE, MI 49250

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To the Village Council  
Village of Sherwood

In planning and performing our audit of the governmental activities and each major fund of the Village of Sherwood as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses; however, we did note certain matters involving the internal control and its operation that we recommend be addressed:

Investment Policy

The Village should adopt a revised investment policy to comply with the requirements of Governmental Accountant Standards Board (GASB) Statement No. 40.

This communication is intended solely for the information and use of the Village Council and others within the Village, and is not intended to be and should not be used by anyone other than these specified parties.

*Bailey, Hodshire & Company, P.C.*

Jonesville, Michigan  
September 29, 2008